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Agricultural Situation

EU 2005 Agricultural Budget 2004

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Report Highlights:

The 2005 budget for the EU's Common Agricultural policy has been adopted. EUR 49.7 bn has been allocated, representing an increase of EUR 2.9 bn since 2004. This increase is mainly due to the impact of the 2003 CAP Reforms and 2004 enlargement, adding roughly EUR 1.3 bn and EUR 1.4 bn respectively to the budget.

However, the total of EUR 49.7 bn is EUR 777m less than the Commission's forecast needs, the cut being driven by Member State Finance Ministers. Over the coming months, budget shortfalls may need to be addressed for direct aid payments, tomatoes and possibly cereals.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

The EU budget for the CAP in 2005 has been approved, to give a 2005 allocation for market support (Heading 1A) of EUR 42.838 bn, a EUR 1 bn reduction in market spending compared to the Commission's initial proposals back in April 2004. Rural development expenditure for 2005 is unchanged at EUR 6.841 bn (Heading 1B, total rural development commitments).

The EU agriculture budget is split into two parts: CAP Markets, or Heading 1A and Rural Development, or Heading 1B. However, for 2005, some changes are being introduced which shift some budget lines both into and out of CAP expenditure, making comparisons with previous years a little more difficult. A significant part of rural development expenditure, EUR 3.9 bn in 2005, comes from outside of the EU agricultural budget and is not included with the EUR 6.8 bn rural development expenditure incorporated in the CAP total expenditure figure. For more information on EU rural development policy see GAIN Report, E34095, [Rural Development in the EU](#), December 2004¹.

The European Commission originally proposed a CAP (market support) budget for 2005 of EUR 43.8 bn back in April 2004. (See GAIN E34006, [Commission presents draft EU agriculture budget for 2005](#), April 2004²). This represented an increase of EUR 3.9 bn from the 2004 budget. The increases were due mainly to the additional costs of the 2003 CAP reform (+ EUR 1.3 bn) and direct payments to the New Member States (+ EUR 1.4 bn).

However, in October and November, the Council (Member State governments), driven by Member State Finance Ministers, ordered the Commission to cut EUR 1 bn from the market expenditure section of the budget (Heading 1A). At the same time, the Commission updated its forecast budget requirements for 2005, taking into account factors such as the Dollar's decline against the Euro and a substantial EU grain harvest in the summer of 2004. This led to the Commission reducing their requested Heading 1A expenditure by only around EUR 220m to EUR 43.610 bn.

Prolonged negotiations between the Commission and the Council led to the adoption of the final 2005 budget which saw the Council sticking to the EUR 1 bn cut, but also ignoring the Commission's revised budget estimates³. This means that some budget lines have lower allocations than requested by the Commission – notably cereals, arable direct aids, fruit and vegetables and beef/veal. However, some budget lines have ended up with more money than requested – milk and sugar.

Expenditure can be switched between different budget lines for plant products or livestock products but not from plants to livestock or vice versa. So for example, the expected shortfall for beef and veal could be offset by the overrun expected for the milk sector. However, the Council will probably need to revisit the budget lines for arable direct aid and tomatoes (within fruit and vegetables budget line) in the coming months to address the expected shortfall.

Cereals

It is not clear how the shortfall in the cereals budget (EUR 395 m allocated compared to EUR 639 m, Commission's forecast of expected needs) will be addressed. This is particularly important in light of the banner grain harvest in the EU this marketing year and the significant extra expenditure necessary for the 6.7 MMT of grain that have been offered into

¹ <http://www.fas.usda.gov/gainfiles/200411/146118181.pdf>

² <http://www.fas.usda.gov/gainfiles/200405/146106236.pdf>

³ Note that the European parliament has no say in changing CAP market measures (as it is compulsory expenditure), it can only influence non-compulsory expenditure such as rural development, though this is already at maximum permitted levels.

intervention during the first two months of the intervention campaign so far in 2004/05. This shortfall could also impact on any decision by the Commission over whether to grant export subsidies for wheat. However, it must be stressed that there is considerable flexibility in the EU budget as well as scope for the Council to revise a budget line should additional funds be needed, so in practice this shortfall will probably not have any influence on the Commission's decision as to whether to grant export subsidies for wheat or not.

2005 Budget – Proposed EU Agricultural Spending

Millions EUR	2004	Provisional Draft 2005 Budget	Commission Amended 2005 budget	Final 2005 Budget
Cereals	368	395	639	395
Rice	175	469	473	469
Arable Direct Aids	17,254	17,403	17,403	16,972
Food Programs	226	223	221	223
Sugar/Monetary	1,721	1,815	1,669	1,770
Olive Oil	2,364	2,355	2,281	2,297
Textile Crops	886	936	966	913
Fruit and Vegetables	1,617	1,860	1,948	1,814
Wine	1,215	1,259	1,260	1,228
Tobacco	941	952	954	929
Other	776	737	733	737
Direct Aids	-6	1,388	1,398	1,388
Total Plant Production	27,537	29,792	29,919	29,135
Milk	2,959	3,901	3,534	3,805
Beef and Veal	8,054	8,088	8,114	7,888
Sheepmeat	1,530	1,840	1,841	1,795
Pigmeat/Eggs/Poultry	175	197	203	197
Total Livestock Production	12,718	14,026	13,677	13,684
Audit of ag. Expenditure	-378	-375	-375	-375
Policy Strategy	66	66		102
Ancillary	297	321		322
Total Heading 1A	40,240	43,830	43,613	42,838
Rural Development	4,803	4,910	4,910	4,910
NMS Transitional Instrument	1,733	1,931	1,931	1,931
Total Heading 1B	6,536	6,841	6,841	6,841
Total Heading 1	46,776	50,671	50,454	49,679

The Provisional Draft Budget for 2005 was published by the Commission in April 2004. The Commission's amended 2005 budget proposals date from October 2004. The final 2005 budget was agreed in December 2004.

Note: The main item in Ancillary is for disease eradication, but also includes emergency animal health measures and fishery production intervention.

Note: There is also an additional EUR 3.9 bn commitments for rural development from the Structural Funds component of the EU budget.

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E34051	Debate on future EU budget could impact on EU agricultural subsidies	August 2004
E34006	Commission presents draft EU agriculture budget for 2005	April 2004
E24054	EU final 2004 agriculture budget	March 2004
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